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Regional Strategies for Global Leadership

by Pankaj Ghemawat

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Let's assume that your firm has a significant international presence. In that case, it probably has something called a "global strategy," which almost certainly represents an extraordinary investment of time, money, and energy. You and your colleagues may have adopted it with great fanfare. But, quite possibly, it has proven less than satisfactory as a road map to cross-border competition.

Disappointment with strategies that operate at a global level may explain why companies that do perform well internationally apply a regionally oriented strategy in addition to—or even instead of—a global one. Put differently, global as well as regional companies need to think through strategy at the regional level.

Jeffrey Immelt, CEO of GE, claims that regional teams are the key to his company's globalization initiatives, and he has moved to graft a network of regional headquarters onto GE's otherwise lean product-division structure. John Menzer, president and CEO of Wal-Mart International, tells employees that global leverage is about playing 3-D chess—at the global, regional, and local levels. Toyota may have gone furthest in exploiting the power of regionalized thinking. As Vice Chairman Fujio Cho says, "We intend to continue moving forward with globalization…by further enhancing the localization and independence of our operations in each region."

The leaders of these successful companies seem to have grasped two important truths about the global economy. First, geographic and other distinctions haven't been submerged by the rising tide of globalization; in fact, such distinctions are arguably increasing in importance. Second, regionally focused strategies are not just a halfway house between local (country-focused) and global strategies but a discrete family of strategies that, used in conjunction with local and global initiatives, can significantly boost a company's performance.

In the following article, I'll describe the various regional strategies successful companies have employed, showing how they have switched among the strategies and combined

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them as their markets and businesses have evolved. I'll begin, though, by looking more closely at the economic reasons why regions are often a critical unit of analysis for cross-border strategies.

The Reality of Regions

The most common pitch for taking regions seriously is that the emergence of regional blocs has stalled the process of globalization. Implicit in this view is a tendency to see regionalization as an alternative to further cross-border economic integration.

In fact, a close look at the country-level numbers suggests that increasing cross-border integration has been accompanied by high or rising levels of regionalization. In other words, regions are not an impediment to but an enabler of cross-border integration. As the exhibit "Trade: Regional or Global?" shows, the surge of trade in the second half of the twentieth century was driven more by activity within regions than across regions. The numbers also cast doubt on the idea (held implicitly by advocates of pure global strategies) that economic vitality is promoted more by cross-regional trade. It turns out that regions whose internal trade flows are the lowest relative to trade flows with other regions—Africa, the Middle East, and some of the Eastern European transition economies—are also the poorest economic performers.

Country-level numbers also suggest that foreign direct investment (FDI) is quite regionalized, which is even more surprising than the regionalization of trade. Data from the United Nations Conference on Trade and Development show that for the two dozen countries that account for nearly 90% of the world's outward FDI stock, the median share of intraregional FDI in total FDI was 52% in 2002, the most recent year for which data are available.

The extent and persistence of regionalization in economic activity reflect the continuing importance not only of geographic proximity but also of cultural, administrative, and, to some extent, economic proximity.[1] These four factors are interrelated: Countries that are relatively close to one another are also likely to share commonalities along the other dimensions. What's more, those similarities have intensified in the past few decades through free trade agreements, regional trade preferences and tax treaties, and even currency unification, with NAFTA and the European Union supplying the two most obvious examples. Ironically, some differences between countries within a region can combine with the similarities to expand the region's overall economic activity. For instance, we see U.S. firms in many industries nearshoring production facilities to Mexico, thereby arbitraging across economic differences between the two countries while retaining the advantages of geographic proximity and administrative and political similarities, which more distant countries, such as China, do not enjoy.

Evidence from companies' international sales also points to considerable regionalization. According to data analyzed by Susan Feinberg at Rutgers Business School, among U.S. companies operating in only one foreign country, there is a 60% chance that the country is Canada. Even the largest multinational corporations exhibit a significant regional bias. A study published by Alan Rugman and Alain Verbeke in the *Journal of International Business Studies* shows that around 88% of the world's biggest multinationals derive at least 50% of their sales—the weighted average is 80%—from their home regions. Just 2% (a total of nine companies) derive 20% or more of their sales from each of the triad of North America, Europe, and Asia.

Zooming in on large companies with relatively broad regional footprints—roughly akin to the top 12% of the previous sample—we find that even here competitive interactions are often regionally focused. Take the case of the aluminum-smelting industry. As we see in the exhibit "Industry: Regional or Global?" in the last ten years the industry has experienced some increase in concentration as measured by the Herfindahl index (a standard measure of industry concentration; the higher the index, the larger the market shares of the largest firms). But that increase in concentration reverses less than one-half of the decline of the previous 20 years, or about one-tenth of the decline experienced since 1950. In contrast, concentration in North America has doubled in the last ten years after holding more or less steady for the previous 20 years. Similar patterns appear in a range of other industries: personal computers, beer, and cement, to name just three. In other words, regions are often the level at which global oligopolists try to build up powerhouse positions.

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Let's now take a closer look at the menu of regional strategies from which your company can choose.

The Regional Strategy Menu

Broadly speaking, regional strategies can be classified into five types, each with distinct strengths and weaknesses. I have ordered the strategies according to their relative complexity, starting with the simplest, but that does not mean companies necessarily progress through the strategies as they evolve. Whereas some companies may indeed adopt the strategies in the order in which I present them, others may find themselves abandoning more-advanced strategies in favor of simpler ones—good business is about striving to maximize value, not complexity. And capable companies will often use elements of several strategies simultaneously.

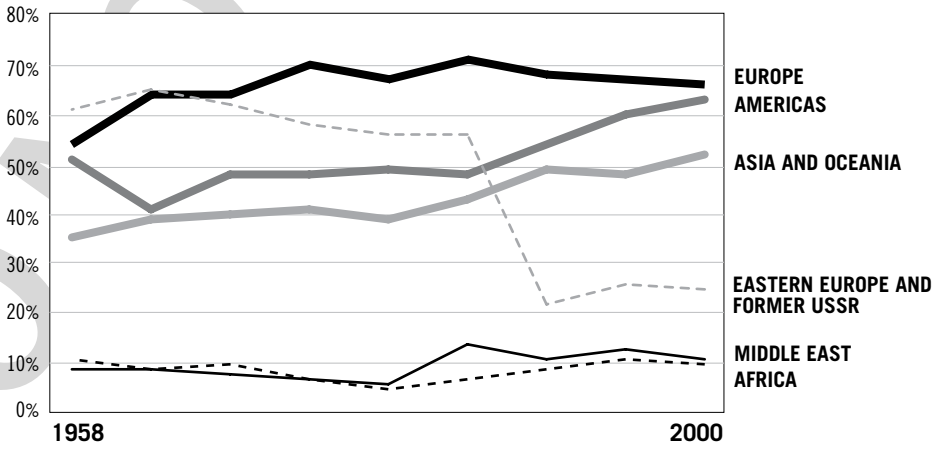
The Home Base Strategy. Except for the very few companies that are virtually born global, such as Indian software services firms, companies generally start their international expansion by serving nearby foreign markets from their home base, locating all their R&D and, usually, manufacturing in their country of origin. The home base is also where the bulk of the *Fortune* Global 500 still focuses. Even companies that have since moved on to more complex regional strategies nonetheless rely on a home base strategy—at the regional level—for long periods. Thus, for decades, Toyota's international sales came exclusively from direct exports. And some companies that move on eventually return to a home base strategy: GE did so in home appliances, as did Bayer in pharmaceuticals.

For other companies, however, a focus on the home region is a matter of neither default nor devolution but, instead, the desired long-term strategy. Take the case of Zara, the Spanish fashion company. In a cycle that takes between two and four weeks, Zara designs and makes items near its manufacturing and logistics hub in northwestern Spain and trucks those goods to Western European markets. This rapid response lets the company produce what is selling during a fashion season instead

Trade: Regional or Global?

In many parts of the world, intraregional trade increased steadily as a percentage of a region's total trade in the second half of the twentieth century. For example, in 1958 some 35% of trade in Asia and Oceania took place between countries in that geographic region. In 2000, the proportion was more than 50%. Globally, the proportion of trade within regions rose from about 47% to 55% between 1958 and 2000. The only significant decline has been in Eastern Europe, but that is explained by the collapse of communism. In general, the numbers indicate that increasing economic integration through international trade has been accompanied by increasing rather than decreasing regionalization.

Intraregional Trade as a Percentage of Total Trade



Source: United Nations, *International Trade Statistics Yearbooks*, 1958 to 2000.

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of committing to merchandise before the season starts. The enhanced customer appeal and reduced incidence of markdowns have so far more than offset the extra costs of producing in Europe instead of Asia.

As Zara illustrates, home base strategies work well when the economics of concentration outweigh the economics of dispersion. Fashion-sensitive items do not travel easily from the Spanish hub to other regions, because the costs of expedited air shipments compromise the company's low-price positioning. More generally, the presence of any factor that collapses distance *within* the local region (such as regional grids in energy) will encourage companies to favor a single-region, home base strategy.

For some companies, the "region" that can be served from the home base is actually the globe. Operating in the highly globalized memory chip business, the Korean giant Samsung has one of the most balanced worldwide sales distributions of any major business, but it considers the colocation of most R&D and production at one site in South Korea to be a key competitive advantage. Transport costs are so low relative to product value that geographic concentration—which permits rapid interactions and iteration across R&D and production—dominates geographic dispersion even at the global level.

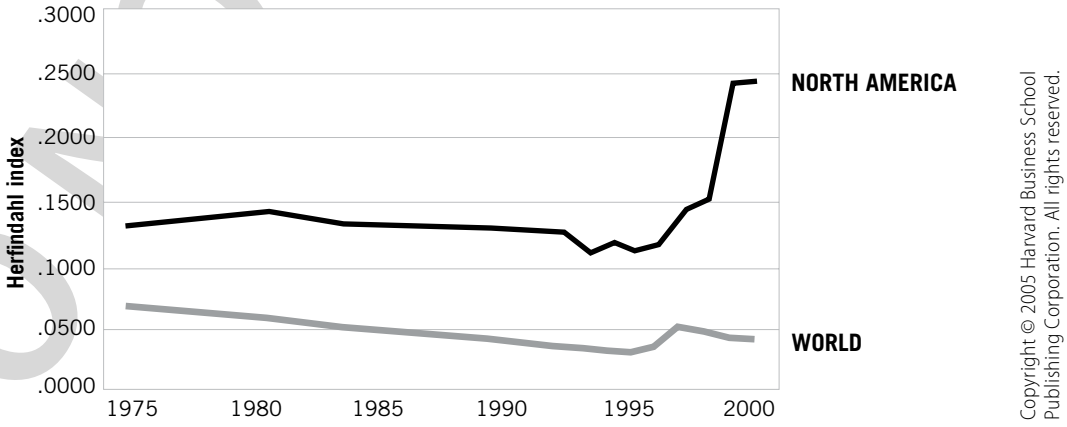
But cases like Samsung are rare. Typically, doing business from the home base effectively limits a company to its local region. As a result, the biggest threats to companies pursuing a home base strategy are running out of room to grow or failing to hedge risk adequately. Growth within Europe will soon be an issue for Zara. And risk has already emerged as a major concern: As of this writing, the sharp decline of the dollar against the euro has inflated Zara's costs of production relative to competitors that rely more on dollar-denominated imports from Asia.

The Portfolio Strategy. This strategy involves setting up or acquiring operations outside the home region that report directly to the home base. It is usually the first strategy adopted by

Industry: Regional or Global?

In many "global" industries, competition is playing out at a regional level. The chart below measures concentration in the aluminum-smelting industry as a summary measure of the distribution of market shares within it. The metric used is the Herfindahl index, which measures the degree to which the industry is fragmented (lots of small to medium-sized companies splitting most of the business) or concentrated (a few players controlling most of the business). The higher the index, the larger the market shares of the largest companies. As the chart shows, the level of global competition was relatively flat from 1975 to 2000, while concentration in North America over the same period increased dramatically.

Concentration in the Aluminum-Smelting Industry



Source: Fariborz Ghadar, Center for Global Business Studies, Penn State University.

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companies seeking to establish a presence outside the markets they can serve from home. The advantages of this approach include faster growth in nonhome regions, significant home positions that generate large amounts of cash, and the opportunity to average out economic shocks and cycles across regions.

A good example of a successful portfolio strategy is provided by Toyota's initial investments in the United States, which seemed tied together by little more than the desire to build up a manufacturing presence in the company's most important overseas market. What prevented this approach from destroying value was Toyota's distinct competitive advantage: the celebrated Toyota Production System (TPS), which was developed and still works best at home in Japan but could be applied to factories in the United States.

Although the portfolio strategy is conceptually simple, it takes time to implement, especially if a company tries to expand organically. It took Toyota more than a decade to establish itself in North America—a process that began with a joint venture with General Motors in the early 1980s. For an automaker lacking an advantage like TPS, the organic buildup of a significant presence in a new region could take far longer. Of course, companies may build a regional portfolio more quickly through acquisitions, but even that can take a decade or more. When Jack Welch began GE's globalization initiative in the second half of the 1980s, he targeted expansion in Europe, giving a trusted confidant, Nani Beccalli, wide latitude for deal making. Thanks to Beccalli's acquisitions, GE built up a strong presence in Europe, but the process of assembling the regional portfolio lasted until the early 2000s.

Companies that adopt a portfolio strategy often struggle to deal with rivals in nonhome regions. That's largely because portfolio strategies offer limited scope for letting regional—as opposed to local or global—considerations influence what happens on the ground at the local level. Indeed, this was precisely the experience of GE, whose European businesses reported to the global headquarters in the United States, run by purported "global leaders"—many of whom were Americans who had never lived or worked abroad. Meanwhile, most of GE's toughest competitors in its nonfinancial businesses were European companies that knew their increasingly regionalized home turf and were prepared to compete aggressively there. During a talk at Harvard Business School in 2002, Immelt described the results: "I think we stink in Europe today."

The surge of trade in the second half of the twentieth century was driven more by activity within regions than across regions.

The Hub Strategy. Companies seeking to add value at the regional level frequently begin by adopting this strategy. Originally articulated by McKinsey consultant Kenichi Ohmae, a hub strategy involves building regional bases, or hubs, that provide a variety of shared resources and services to local (country) operations. The logic is that such resources may be hard for any one country to justify, but economies of scale or other factors may make them practical from a cross-country perspective.

Hub strategies often involve transforming a foreign operation into a stand-alone unit. In the early 1990s, for instance, Toyota began producing a limited number of locally exclusive models in its principal foreign plants—previously a taboo—thereby signaling the company's intention to build complete organizations in each of its regions. These plants thus started to serve as regionally distinct hubs, each with its own platform, whose products were designed for sale within the region.

In its purest form, a hub strategy is simply a multiregional version of the home base strategy. For example, if Zara were to add a second hub in, say, Asia by establishing an operation in China to serve the entire Asian market, it would shift from being home based to being a multiregional hubber. Therefore, some of the same conditions that favor a home base strategy also favor hubs. It should also be noted that multiple hubs can be very independent of one another; the more regions differ in their requirements, the weaker the rationale for hubs to share resources and policies.

A regional headquarters can be seen as a minimalist version of a hub strategy. After the European Commission blocked GE's merger with Honeywell, GE felt the need to dedicate more corporate infrastructure and resources to Europe, partly to attract, develop, and retain the best European employees and partly to acquire a more European face for political reasons. In 2001, therefore, GE switched from a portfolio to a hub strategy by establishing a regional HQ structure in Europe—complete with a CEO for GE Europe. The company followed up in 2003 by establishing a parallel organization in Asia.

The impact of the typical regional HQ is lim-

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ited, however, by its focus on support functions and its weak links to operating activities. For example, the regional presidents within Wal-Mart International perform a communication-and-monitoring role, but otherwise their influence on strategy and resource allocation seems to be mainly personal. In any event, a regional HQ is seldom a sufficient basis for a regional strategy, even though it may be a necessary part of one. (See the sidebar "A Regional HQ Is Not Enough.")

The challenge in executing a hub strategy is achieving the right balance between customization and standardization. Companies too responsive to interregional variation risk adding too much cost or sacrificing too many opportunities to share costs across regions. As a result, they may find themselves vulnerable to attacks from companies taking a more standardized approach. On the other hand, companies that try to standardize across regional hubs—and in so doing overestimate the degree of commonality from region to region—are vulnerable to competition from local players. Thus we see Dell, whose product is relatively standard across its regional operations, forced to modify its plans in China to respond to local companies competing aggressively on cost by producing less-sophisticated, lower quality products.

The Platform Strategy. Hubs, as we've seen, spread fixed costs across countries within a region. Interregional platforms go a step further by spreading fixed costs across regions. They tend to be particularly important for back-end activities that can deliver economies of scale and scope. Most major automakers, for example, are trying to reduce the number of basic platforms they offer worldwide in order to achieve greater economies of scale in design, engineering, administration, procurement, and operations. It is in this spirit that Toyota has been reducing the number of its platforms from 11 to six and has invested in global car brands such as the Camry and the Corolla.

It's important to realize that the idea behind platforming is *not* to reduce the amount of product variety on offer but to deliver variety more cost-effectively by allowing customization atop common platforms explicitly engineered for adaptability. Ideally, therefore, platform strategies are almost invisible to a company's customers. Platforming runs into difficulties when managers take standardization too far.

Let's look again at the automobile industry. Sir Nick Scheele, outgoing COO of Ford, points out, "The single biggest barrier to globalization [in the automobile industry]…is the relatively cheap cost of motor fuel in the United States. There is a tremendous disparity between the United States and…the rest of the world, and it creates an accompanying disparity in…the most fundamental of vehicle characteristics: size and power." This reality is precisely what Ford ignored with its Ford 2000 program. Described by one analyst as the biggest business merger in history, Ford 2000 sought to combine Ford's regional operations—principally North America and Europe—into one global operation. This attempt to reduce duplication across the two regions sparked enormous internal turmoil and largely destroyed Ford's European organization. Regional product development capabilities were sacrificed, and unappealingly compromised products were pushed into an unreceptive marketplace. The result: nearly $3 billion in losses in Europe through 2000 and a fall in regional market share from 12% to 9%.

The Mandate Strategy. This cousin of the platform strategy focuses on economies of *specialization* as well as scale. Companies that adopt this strategy award certain regions broad mandates to supply particular products or perform particular roles for the whole organization. For example, Toyota's Innovative International Multi-purpose Vehicle (IMV) project funnels common engines and manual transmissions for pickup trucks, SUVs, and

A Regional HQ Is Not Enough

Many companies with explicitly global ambitions have reacted to the regionalization of the world economy by establishing a set of regional headquarters. This kind of organizational response has, in fact, also been the focus of most of the management literature on regions. Michael Enright, for example, has described some interesting patterns in recent articles in the *Management International Review* on the functions performed by regional management centers. But to focus on regional HQs or any other organizational structure as *the* primary object of interest is a little like focusing on the briefcase rather than its contents. Without a clear sense of how a regional structure is supposed to add value, it is impossible to specify what the structure should try to achieve. A company with no regional HQs may still use regions as the building blocks of its overall strategy, and a company with many regional HQs may still not have a clearly articulated regional strategy. In other words, having regional headquarters doesn't mean that you actually have a regional strategy.

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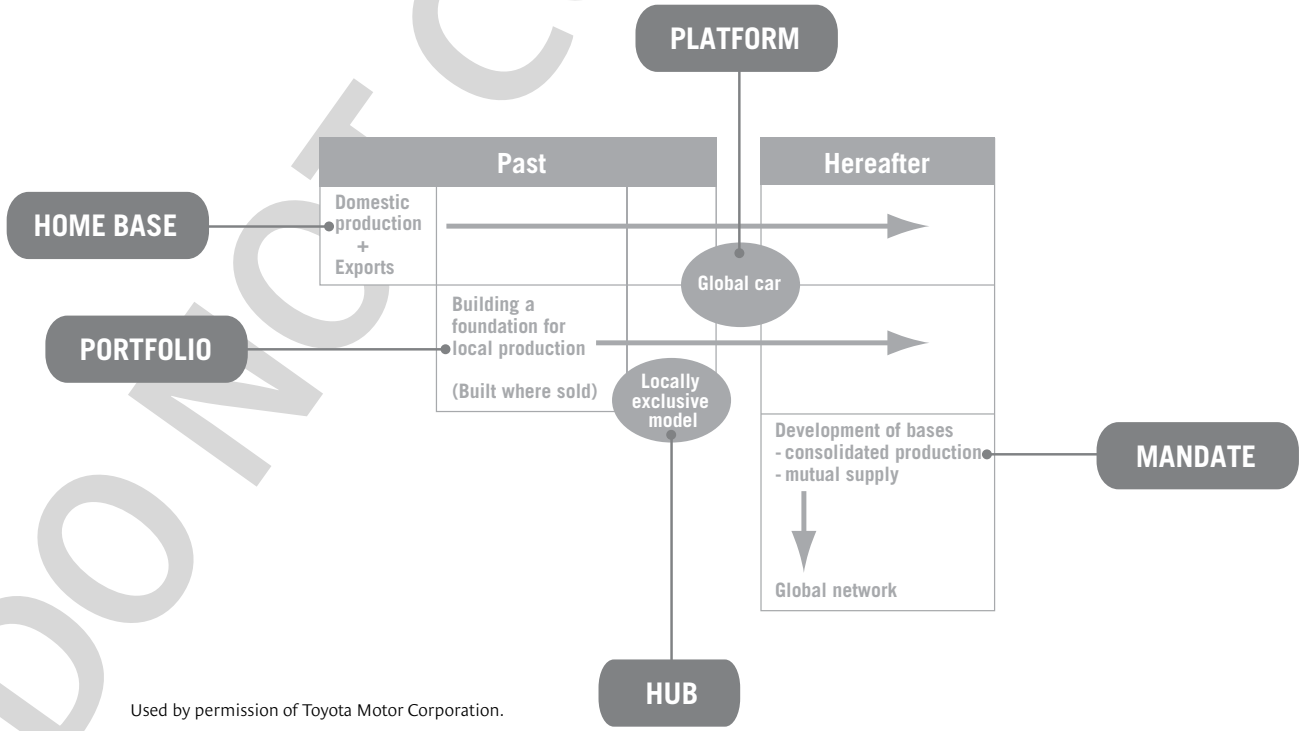
minivans from Asian plants to four assembly hubs there and in Latin America and Africa, and then on to almost all the major markets around the world except the United States, where such vehicles are larger. Similarly, Whirlpool is sourcing most of its small kitchen appliances from India, and a host of global companies are in the process of broadening the mandates of their production operations in China.

As with platforms, the scope for mandates generally increases with the degree of product standardization around the world, even though the mandate strategy involves focused resource deployments at the regional and local levels. But interregional mandates can be set up in some businesses that afford little room for conventional platforms. For instance, global firms in consulting, engineering, financial services, and other service industries often feature centers of excellence that are recognized as repositories of particular knowledge and skills, and are charged with making that knowledge available to the rest of the firm. Such centers are often concentrated in a single location, around an individual or a small group of people, and therefore have geographic mandates that are much broader than their geographic footprints.

There are of course several risks associated with assigning broad geographic mandates to particular locations. First, such mandates can allow local, national, or regional interests to unduly influence, or even hijack, a firm's overall strategy: More than one professional service firm can be cited in this context. Second, broad mandates cannot handle variations in local, national, or regional conditions, which is why the near-global mandate for Toyota's Asian pickup engine and transmission plants excludes the United States. And finally, carrying the degree of specialization to extremes can create inflexibility. A company that produces everything based on global mandates would be affected

The Toyota Way

This exhibit is an almost exact reproduction of a slide presented to Toyota investors at an informational event in New York City in September 2004. The only change I have made is to label the slide to highlight how the various elements identified in the Toyota strategy correspond to the five strategies described in this article. Toyota's "global network," which combines all the other approaches, can be considered a sixth strategy.



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worldwide by a disruption at a single location.

The reader will have noticed that Toyota figures as an illustration in all the foregoing descriptions. Indeed, this is because Toyota provides perhaps the most compelling and complete example of how the effective application of regional strategies can produce a global powerhouse. The success is apparent: Toyota surpassed Ford as the world's second-largest automaker in 2004 and is poised to overtake General Motors in the next two to three years. The exhibit "The Toyota Way" reproduces a slide that the company uses to summarize the evolution of its strategy. It shows both that Toyota looks at strategy through a regional lens and that it has, in fact, progressed through all the strategies I've just described.

What is also interesting about Toyota is that new modes of value creation at the regional level have supplemented old ones instead of replacing them. Although Toyota has moved beyond a Japanese manufacturing base (the home base strategy), exports from Japanese manufacturing facilities to the rest of the world continue to account for more than one-quarter of the company's volume and a significantly larger share of its profits. In regions other than the two in which it has strong positions—East and Southeast Asia and North America—Toyota is still following a portfolio approach. In terms of regional hubs, the promotion of a production and procurement specialist to succeed Fujio Cho as president signals an increased commitment to transplanting the Toyota Production System from Japan to the newer production hubs at a time when overseas production is being ramped up rapidly. But even as its hubs gain strength, Toyota continues to reduce the number of its major production platforms and pursue additional specialization through interregional mandates. The IMV project described earlier plays a critical role in all three respects.

The picture that emerges is not one of Toyota progressing through the various regional strategies one at a time but of a company trying to cover all the bases. One can even argue that the application of all five regional strategies itself represents a new form of strategy—the "global network" in Toyota's slide—in which various regional operations interact with one another and the corporate center in multiple ways and at multiple levels.

Of course, Toyota's ability to employ a complex mix of regional strategies to create value is inseparable from the company's basic competitive advantage: TPS's ability to produce high-quality, reliable cars at low cost. Without this fundamental advantage, some of Toyota's coordination attempts would drown in a sea of red ink.

Defining Your Regions

As companies think through the risks and opportunities of various regional strategies, they also need to clarify what they mean by the word "region." I have so far avoided a definition, although most of my examples imply a continental perspective. My goal is not to be elusive but to avoid restricting the strategies to a particular geographic scale. Particularly with large countries, the logic of the strategies can apply to intranational as well as international regions. Oil companies, for example, consider the market for gasoline in the United States to consist of five distinct regions. Other large markets where transport costs are relatively high in relation to product value, such as cement in Brazil or beer in China, can be similarly broken down.

The general point is that one can interpret the regional strategies at different geographic levels. Assessing the level—global, continental, subcontinental, national, intranational, or local—at which scale is most tightly tied to profitability is often a helpful guide to determining what constitutes a region. Put differently, the world economy is made up of many overlapping geographic layers—from local to global—and the idea is to focus not on one layer but on many. Doing so fosters flexibility by helping companies adapt ideas about regional strategies to different geographic levels of analysis.

In addition to reconsidering what might constitute a geographic region, one can imagine being even more creative and redefining distance—and regions—according to nongeographic dimensions: cultural, administrative and political, and economic. Aggregation along nongeographic dimensions will sometimes still imply a focus on geographically contiguous regions. Toyota, for instance, groups countries by existing and expected free trade areas. At other times, however, such definitions will yield regions that aren't geographically compact. After making its first foreign investments in Spain, for example, the Mexican ce-

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Is a Regional Strategy Right for Your Company?

Take a couple of minutes to complete this short questionnaire. First, circle one option for each of the following eight categories. Then complete the scoring. Give yourself -1 for each "a" response, 0 for each "b" response, and 1 for each "c" response, and then add up the numbers. A positive score may indicate a significant need for strategy at the regional level. The higher the score, the greater is your need.

SCORING:
-1 for each (a) response
0 for each (b) response
1 for each (c) response

Of course, this kind of questionnaire is no substitute for analyzing your company's situation—and regionalization options—in detail. But if the results prompt you to look at your regional strategy more carefully, the exercise will have been useful.

COMPANY FOOTPRINT

Number of countries with significant operations — **SCORE**

a. **1–5**
b. **6–15**
c. **>15** _____

Percentage of sales from the home region

a. **>80%**
b. **50%–80%**
c. **<50%** _____

COMPANY STRATEGY

Objective for interregional dispersion

a. **Decrease**
b. **Maintain**
c. **Increase** _____

Number of bases of aggregation (or grouping) to be pursued

a. **1**
b. **2**
c. **>2** _____

COUNTRY LINKS

Percentage of trade that is intraregional

a. **<50%**
b. **50%–70%**
c. **>70%** _____

Percentage of FDI that is intraregional

a. **<40%**
b. **40%–60%**
c. **>60%** _____

COMPETITIVE CONSIDERATIONS

Differences in profitability across regions

a. **Small**
b. **Short-term**
c. **Long-term** _____

Key competitors' strategies

a. **Deregionalizing**
b. **Unchanged**
c. **Regionalizing** _____

TOTAL SCORE _____

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ment company Cemex grew through the rest of the 1990s by aggregating along the economic dimension—that is, by expanding into markets that were emerging, like its Mexican home base. This strategy created the so-called ring of gray gold: developing markets that mostly fell in a band circling the globe just north of the equator, forming a geographically contiguous but dispersed region.

At times, the parts of a region aren't even contiguous. Spain, for example, can be thought of as "closer" to Latin America than to Europe because of long-standing colony-colonizer links. Between 1997 and 2001, 44% of a surge in FDI from Spain was directed at Latin America—about ten times Latin America's share of world FDI. Europe's much larger regional economy was pushed into second place as a destination for Spanish capital.

Finally, it's important to remember that the definition of "region" often changes in response to market conditions and, indeed, to a company's own strategic decisions. By serving the U.S. market from Japan, Toyota in its early days implicitly considered that market to be on

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the periphery of its own region. The North American West Coast was easy to access by sea, the United States was open to helping the Japanese economy get off the ground, and the company's business there was dwarfed by its domestic business. But as Toyota's U.S. sales grew, political pressures increased the political and administrative distance between the two countries, and it became apparent that Toyota needed to look at the United States as part of its own self-contained region.

Leading-edge companies are starting to grapple with these definitional issues. For example, firms in sectors as diverse as construction materials, forest products, telecommunications equipment, and pharmaceuticals have invested significantly in modern mapping technology, using such innovations as enhanced clustering techniques, better measures for analyzing networks, and expanded data on bilateral, multilateral, and unilateral country attributes to visualize new definitions of regions. At the very least, this sort of mapping sparks creativity.

Facing the Organizational Challenge

Regional strategies, as I've noted, can take a long time to implement. One deep-seated reason for this is that an organization's existing structures may be out of alignment with—or even inimical to—a superimposed regional strategy. The question then becomes how best to mesh such strategies with a firm's existing structures, especially when the established organizational players command most of the power.

For some pointers, consider Royal Philips Electronics, which has been a border-crossing enterprise for virtually all of its 114-year history. Philips's saga not only points to alignment challenges but also reminds us that regionalization is rarely a triumphal march from the home base to interregional platforms or mandates.

Starting in the 1930s, Philips evolved into a federal system of largely autonomous national organizations presided over by a cadre of 1,500 elite expatriate managers who championed the country-oriented approach. But as competition emerged in the 1960s and 1970s from Japanese companies that were more centralized and had fewer, larger plants, this highly localized structure became expensive to maintain. Philips responded by installing a matrix organization—with countries and product divisions as its two legs—and spent roughly two decades trying, without much success, to rebalance the matrix away from the countries and toward the product divisions. Finally, in 1997, CEO Cor Boonstra abolished the geographic dimension of the matrix as a way of forcing the organization to align itself around global product divisions.

Given this long and sometimes painful history, it would be unrealistic for today's champions of regional strategies within Philips to expect to overthrow the product division structure. Would-be regionalists have to work within it. Jan Oosterveld, who served as CEO of Asia Pacific from 2003 to 2004—a position created after Philips announced the combination of two Asia Pacific subregions into one—saw that his first task was to facilitate the sharing of resources and knowledge across product divisions within the region. Ultimately, however, he aimed to help develop an Asia Pacific strategy for the company. So although the new Asian regional structure has initially focused on coordinating governmental relations, key account management, branding, joint purchasing, and IT, HR, and other support functions, Oosterveld and others can imagine a day when much more power might be vested in regional headquarters in, say, New York, Shanghai, and Amsterdam than at the corporate level. They also recognize, however, that achieving that kind of regional strategy could take many years.

The obvious implication is that strategic initiatives can be pursued at the regional level only if some decision rights are reallocated—whether from the local or global levels, or from the other repositories of power within the organization (in Philips's case, product divisions). And just as obviously, no one likes to give up power. Leadership from the top, aimed at promoting a "one-company" mentality, is often the only way forward. One of Oosterveld's conditions for taking the job at Philips was that the board of directors hold regional conclaves twice a year to show its commitment to the regional initiative. Such conclaves might be mainly symbolic, but symbolism can go a long way.

Philips has approached regional strategy flexibly, putting in place a wide variety of arrangements that take into account not only the company's existing structure but also competi-

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tive realities, region by region. In North America, for example, Philips's principal objective continues to be to rebuild its positions and achieve satisfactory levels of performance in the all-important U.S. market. Its activities there are organized entirely around the global product divisions, which, because of the size of the market and Philips's stake in it, are thought to be capable of achieving the requisite geographic focus.

In Europe, where Philips is better established, the company has rethought the role and status of the large operations in the home country of the Netherlands within the broader regional structure. In April 2002, when Philips announced plans to set up a regional superstructure in Asia Pacific, it also folded the Netherlands into an expanded region comprising Europe, the Middle East, and Africa. The point is that irregular or asymmetric structures (in which some regions seem to be much larger than others) are often preferable to an aesthetically pleasing (and in some respects simpler) symmetry of the sort implicitly evoked by much of the discussion up to this point. Even Toyota seems to be focusing separately on China while its other markets are grouped into multicountry regions.

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If your company has a significant international presence, it already has a regional strategy—even if that strategy has been arrived at by default. But given the variety of regional strategies, and the fact that no one approach is best or most evolved, there is no substitute for figuring out which ways of coordinating within or across regions make sense for your company. As we have seen, however, embracing regional strategies calls for flexibility, creativity, and hard-nosed analysis of the changing business context—all of which take time and effort.

In a highly regionalized world, the right regional strategy (or strategies) can create more value than purely global or purely local ones can. But even so, the regional approaches I have been exploring may not make sense for your company. In that case, here is what you can take away from this article: Regions represent just one way of aggregating across borders to achieve greater efficiencies than would be achievable with a country-by-country approach. Other bases of cross-border aggregation that companies have implemented include products (the global product divisions at Philips), channels (Cisco, which uses channels and partners as its primary basis), customer types or global accounts (many IT services firms), functions (most major oil companies), and technologies (ABB recently, before and after trying some of the bases that are listed above and others that aren't). Each of these bases of aggregation offers, as regions do, multiple possibilities for crafting strategies intermediate to the local and global levels by grouping things. In a world that is neither truly local nor truly global, such strategies can deliver a powerful competitive advantage.

1. For a systematic way to think about cultural, administrative, geographic, and economic distance, see the CAGE framework described in my article "Distance Still Matters: The Hard Reality of Global Expansion" (HBR September 2001).

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